

SOUTH LYON AREA
RECREATION AUTHORITY

ANNUAL FINANCIAL
REPORT

FOR THE YEAR ENDED JUNE 30, 2008

**SOUTH LYON AREA
RECREATION AUTHORITY**

AUTHORITY BOARD

Patricia Carcone
David Murphy
Mark St. Charles

DIRECTOR

Jennifer Wilson

AUDITORS

Pfeffer, Hanniford & Palka
Certified Public Accountants

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October 27, 2008

To the Members of the Board
South Lyon Area Recreation Authority
318 West Lake Street
South Lyon, Michigan 48178

INDEPENDENT AUDITORS' REPORT

Dear Board Members:

We have audited the accompanying financial statements of the governmental activities of South Lyon Area Recreation Authority, as of and for the year ended June 30, 2008, which collectively comprise South Lyon Area Recreation Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of South Lyon Area Recreation Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of South Lyon Area Recreation Authority, as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and other required supplementary information on pages 6 through 9 and 28 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants

MANAGEMENT DISCUSSION
AND
ANALYSIS

Management Discussion and Analysis June 30, 2008

Within this section of South Lyon Area Recreation Authority's annual financial report, the Authority's management is providing a narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2008. This narrative discusses and analyzes the activity within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Authority's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the Authority's basic financial statements. The basic financial statements include government-wide financial statements, fund financial statements, and notes to the financial statements. The Authority also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The Authority's annual reports include two government-wide financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the Statement of Net Assets. This is the Authority-wide statement of position presenting information that includes all the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall health of the Authority may extend to various nonfinancial factors as well.

The second government-wide statement is the Statement of Activities which reports how the Authority's net assets changed during the current fiscal year. The design of this statement is to show the financial reliance of the Authority's distinct activities or functions on the revenues generated by the Authority.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The Authority uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

The Authority has one kind of fund:

Governmental funds are reported in the financial statements and encompass essentially the same functions as governmental activities in the government-wide financial statements except with a different focus on the financial activity. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of these resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term. Since the focus of the government-wide financial statements includes a long-term view, a reconciliation of these fund balances has been completed to detail its relation to net assets.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of both the government-wide and fund financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information.

Financial Analysis of the Authority as a Whole

The Authority's net assets at the end of the fiscal year were \$ 92,550. This is a \$ 82,186 increase over last year's net assets of \$ 10,364.

The following tables provide a summary of the Authority's financial activities and changes in net assets:

Summary of Net Assets

| | Governmental Activities | |
|---|-------------------------|-----------|
| | 6/30/2008 | 6/30/2007 |
| Current and other assets | \$ 159,651 | \$ 85,308 |
| Capital assets | 6,384 | 10,480 |
| Total assets | 166,035 | 95,788 |
| Accounts payable/accrued expenses | 5,956 | 13,250 |
| Deferred revenue | 67,529 | 72,174 |
| Total liabilities | 73,485 | 85,424 |
| Net assets: | | |
| Invested in capital assets, net of related debt | 6,384 | 10,480 |
| Unrestricted | 86,166 | (116) |
| Total net assets | \$ 92,550 | \$ 10,364 |

Summary of Changes in Net Assets

| | Governmental Activities | |
|------------------------------------|-------------------------|------------------|
| | 6/30/2008 | 6/30/2007 |
| Revenues: | | |
| Program revenues | | |
| Charges for services | \$ 593,836 | \$ 618,347 |
| Operating grants and contributions | 98,717 | 95,333 |
| General revenues | | |
| Interest income | 3,385 | 3,643 |
| Gain on sale of capital assets | 150 | |
| | <hr/> | <hr/> |
| Total revenues | 696,088 | 717,323 |
| Expenses | | |
| Parks and recreation | 613,902 | 707,626 |
| | <hr/> | <hr/> |
| Changes in net assets | 82,186 | 9,697 |
| Beginning net assets | 10,364 | 667 |
| | <hr/> | <hr/> |
| Ending net assets | <u>\$ 92,550</u> | <u>\$ 10,364</u> |

Financial Analysis of the Authority's Funds

The Authority increased its fund balance by \$74,831 compared to a increase to fund balance in the prior year of \$6,593. The increase is due primarily to decrease in salaries from turnover in management.

South Lyon Area Recreation Authority has only one fund which reports all activity conducted by the Authority, the General Fund.

Capital Asset and Long-Term Debt Activity

They acquired \$1,496 of office equipment, and disposed of \$16,518 of various equipment. In addition, there was no long-term debt issued during the year or any outstanding at year end.

General Fund Budgetary Highlights

The Authority approved a budget prior to the start of the fiscal year, and no amendments were made during the year.

Economic Conditions and Future Activities

The Authority continues to develop relationships with local business and organizations. These collaborative efforts help to offset programming expenses and minimize duplication of services.

South Lyon Community Schools continues to be a primary partner.

Contacting the Authority's Financial Management

This report is designed to provide a general overview of the Authority's financial position and comply with finance-related regulations. If you have any further questions about this report or request additional information please contact South Lyon Area Recreation Authority at 318 West Lake Street, South Lyon, Michigan 48178.

BASIC
FINANCIAL
STATEMENTS

GOVERNMENT-WIDE
FINANCIAL
STATEMENTS

SOUTH LYON AREA RECREATION AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2008

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 157,675 |
| Prepaid expenses | 1,976 |
| Capital assets - net of depreciation | <u>6,384</u> |
| Total assets | <u>166,035</u> |
| LIABILITIES | |
| Accounts payable | 5,050 |
| Accrued wages | 906 |
| Deferred revenue | <u>67,529</u> |
| Total liabilities | <u>73,485</u> |
| NET ASSETS | |
| Investment in capital assets, net of related debt | 6,384 |
| Unrestricted | <u>86,166</u> |
| Total net assets | <u><u>\$ 92,550</u></u> |

The accompanying notes are an integral part of these financial statements.

PFEFFER, HANNIFORD & PALKA

Certified Public Accountants

SOUTH LYON AREA RECREATION AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | <u>Net (Expenses) Revenues and Changes in Net Assets</u> |
|----------------------------------|---------------------|---------------------------------|---|--|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | |
| GOVERNMENTAL ACTIVITIES | | | | |
| Parks and recreation | <u>\$ (613,902)</u> | <u>\$ 593,836</u> | <u>\$ 98,717</u> | <u>\$ 78,651</u> |
| General revenues | | | | |
| Unrestricted investment earnings | | | | 3,385 |
| Gain on sale of capital assets | | | | <u>150</u> |
| Total general revenues | | | | <u>3,535</u> |
| Changes in net assets | | | | 82,186 |
| Net assets, July 1, 2007 | | | | <u>10,364</u> |
| Net assets, June 30, 2008 | | | | <u>\$ 92,550</u> |

The accompanying notes are an integral part of these financial statements.

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FUND
FINANCIAL
STATEMENTS

SOUTH LYON AREA RECREATION AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2008

ASSETS

| | |
|---------------------------|--------------------------|
| Cash and cash equivalents | \$ 157,675 |
| Prepaid expenditures | <u>1,976</u> |
| Total assets | <u><u>\$ 159,651</u></u> |

LIABILITIES AND FUND BALANCE

LIABILITIES

| | |
|-------------------|---------------|
| Accounts payable | \$ 5,050 |
| Accrued wages | 906 |
| Deferred revenue | <u>67,529</u> |
| Total liabilities | 73,485 |

FUND BALANCE - UNRESERVED

| | |
|------------------------------------|--------------------------|
| | <u>86,166</u> |
| Total liabilities and fund balance | <u><u>\$ 159,651</u></u> |

The accompanying notes are an integral part of these financial statements.

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SOUTH LYON AREA RECREATION AUTHORITY
RECONCILIATION OF STATEMENT OF NET ASSETS
OF GOVERNMENTAL FUND TO THE BALANCE SHEET
JUNE 30, 2008

Amounts reported for governmental activities in the Statement
of Net Assets are different because:

| | | |
|---|-----------------|-------------------------|
| Total fund balance per balance sheet | | \$ 86,166 |
| Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds. | | |
| Historical cost | \$ 32,212 | |
| Depreciation | <u>(25,828)</u> | |
| Capital assets net of depreciation | | <u>6,384</u> |
| Net assets of governmental activities | | <u><u>\$ 92,550</u></u> |

The accompanying notes are an integral part of these financial statements.

SOUTH LYON AREA RECREATION AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2008

| | General Fund |
|--|-----------------|
| REVENUES | |
| Adult activities | \$ 75,918 |
| Youth activities | 317,035 |
| Swim activities | 140,081 |
| Pumpkinfest income | 38,897 |
| Drivers education fees | 7,500 |
| Other charges for services | 14,405 |
| Grants, donations and other contributions | 98,717 |
| Interest income | 3,385 |
| | <hr/> |
| Total revenues | 695,938 |
| | <hr/> |
| EXPENDITURES | |
| Salaries | 207,175 |
| Payroll taxes | 20,383 |
| Employee benefits | 30,427 |
| Insurance | 10,013 |
| Pumpkinfest expenditures | 34,859 |
| Special activities expenses | 3,077 |
| Photo copying | 5,709 |
| Recreation supplies | 20,218 |
| Education and training | 211 |
| Contract services - instructors | 185,599 |
| Dues and subscriptions | 655 |
| Rent - facilities | 27,116 |
| Office supplies | 4,897 |
| Bank charges | 8,342 |
| Postage | 8,479 |
| Professional services | 17,602 |
| Printing and publishing | 17,579 |
| Telephone | 5,632 |
| Community promotion | 813 |
| Computer expenditures | 8,330 |
| Utilities | 4,141 |
| | <hr/> |
| Total expenditures | 621,257 |
| | <hr/> |
| Excess of revenues over (under) expenditures | 74,681 |
| | <hr/> |
| OTHER FINANCING SOURCES | |
| Proceeds of sale of capital assets | 150 |
| | <hr/> |
| Net change in fund balance | 74,831 |
| | <hr/> |
| FUND BALANCE, JULY 1, 2007 | 11,335 |
| | <hr/> |
| FUND BALANCE, JUNE 30, 2008 | \$ 86,166 |
| | <hr/> <hr/> |

The accompanying notes are an integral part of these financial statements.

SOUTH LYON AREA RECREATION AUTHORITY
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Amounts reported for governmental activities in the Statement of Activities are different because:

| | |
|--|-------------------------|
| Net change in fund balance - governmental funds | \$ 74,831 |
| Changes in accumulated employee sick and vacation pay are recorded when they are earned in the Statement of Activities | 11,451 |
| Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their useful lives as depreciation expense: | |
| Depreciation expense | \$ (5,592) |
| Capital outlay | <u>1,496</u> |
| Total | <u>(4,096)</u> |
| Change in net assets of governmental activities | <u><u>\$ 82,186</u></u> |

The accompanying notes are an integral part of these financial statements.

NOTES
TO
FINANCIAL
STATEMENTS

SOUTH LYON AREA RECREATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of South Lyon Area Recreation Authority conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies:

A. BASIC FINANCIAL STATEMENTS

In accordance with GASB Statement No. 34 - *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (Statement of Net Assets and Statement of Activities) report on the Authority as a whole. Governmental fund types are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the Authority as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. Generally, the effect of interfund activity has been removed from the government-wide financial statements.

The government-wide Statement of Net Assets reports all financial and capital resources of the Authority (excluding fiduciary funds). It is displayed in a format of assets less liabilities equals net assets, with the assets and liabilities shown in order of their relative liquidity. Net assets are required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. Generally, the Authority would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The government-wide Statement of Activities demonstrates the degree to which both direct and indirect expenses of the various functions and programs of the Authority are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Indirect expenses for administrative overhead are allocated among the functions and activities using a full cost allocation approach and are presented separately to enhance comparability of direct expense between governments that allocate direct expenses and those that do not. Interest on general long-term debt is not allocated to the various functions. Program revenues include: 1) charges to customers or users who purchase, use or directly benefit from goods, services or privileges provided by a particular function or program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes, unrestricted investment income and other revenues not identifiable with particular functions or programs are included as general revenues. The general revenues support the net costs of the functions and programs not covered by program revenues.

SOUTH LYON AREA RECREATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Also, part of the basic financial statements are fund financial statements for the governmental funds. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although this reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures of fund category and of the governmental funds combined), it also gives governments the option of displaying other funds as major funds. Other non-major funds, if any, are combined in a single column on the fund financial statements.

The Authority reports the following major governmental fund:

The General Fund is the Authority's primary operating fund. It accounts for all financial resources of the general government. General Fund activities are funded primarily from program charges and intergovernmental sources.

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The governmental fund financial statements are prepared on a modified accrual basis of accounting. To conform to the modified accrual basis of accounting, certain modifications must be made to the accrual method. These modifications are outlined below:

- A. Revenue is recorded when it becomes both measurable and available (received within 60 days after year-end). Revenue considered susceptible to accrual includes: property taxes, sales and use taxes, licenses, fees and permits, intergovernmental revenues, charges for services and interest.
- B. Expenditures are recorded when the related fund liability is incurred. Principal and interest on long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.
- C. Disbursements for the purchase of capital assets providing future benefits are considered expenditures. Bond proceeds are reported as another financing source.

With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balances as a measure of available spendable resources.

This is the traditional basis of accounting for governmental funds and also is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to: 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the Authority's actual revenues and expenditures conform to the annual budget. Since the governmental fund financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

SOUTH LYON AREA RECREATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. BUDGET INFORMATION

The annual budget is prepared by the recreation director and adopted by the South Lyon Area Recreation Authority; subsequent amendments are approved by the Authority's board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2008 has not been calculated. During the current year, the budget was not amended.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. The budget has been adopted on a total revenue and expenditure basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law.

D. CAPITAL ASSETS

Under GASB Statement No. 34, all capital assets whether owned by governmental activities or business-type activities, are recorded and depreciated in the government-wide financial statements. No long-term capital assets or depreciation are shown in the governmental funds financial statements.

Capital assets are defined as assets with an initial, individual cost of more than \$500 and an estimated useful life greater than one year. Land is considered a capital asset regardless of initial cost. Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

| | |
|--|----------------|
| Office equipment | 3 to 10 years |
| Athletic equipment | 3 to 5 years |
| Buildings, structures and improvements | 10 to 50 years |
| Machinery and equipment | 5 to 40 years |
| Vehicle | 5 years |

E. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

SOUTH LYON AREA RECREATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. RISK MANAGEMENT

The South Lyon Area Recreation Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for workers' compensation and employee medical claims and participates in the state pool program of the Michigan Municipal Risk Management Authority for claims relating to general liability. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past year.

The Michigan Municipal Risk Management Authority's State Pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

G. CASH AND CASH EQUIVALENTS

The Authority considers its deposits and restricted deposits and investments held with maturities of three months or less are considered to be cash equivalents.

H. INCOME TAXES

As a governmental agency, the Authority is exempt from both federal income taxes and Michigan Business Tax.

I. DEFERRED REVENUE

Governmental funds modified accrual basis financial statements and the government-wide full accrual financial statements report deferred revenue in connection with revenue that has not been earned since it related to advance collection of program fees for programs which will be provided subsequent to the end of the current fiscal year.

J. COMPENSATED ABSENCES

The policies regarding compensated absences are outlined in the Authority's "Personnel Policies". All compensated absences lapse at the end of the fiscal year. Thus, no accruals are recorded.

NOTE 2 - FINANCIAL REPORTING ENTITY

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 39, certain other governmental organizations are not considered to be part of the reporting entity for financial statement purposes.

The criteria established by GASB Statement No. 39 for various governmental organizations to be included in the reporting entity's financial statements include accountability, control, and significant financial relationships.

The accompanying financial statements of South Lyon Area Recreation Authority as of June 30, 2008, include any and all boards, agencies, funds and account groups under the jurisdiction of the South Lyon Area Recreation Authority Board.

South Lyon Area Recreation Authority was jointly incorporated by the City of South Lyon, Lyon Township, and the Charter Township of Green Oak. The Authority was incorporated in 2002 under provisions of Public Act 321. The Authority is governed by a board composed of one member from each of the above municipalities. The Authority was formed to provide recreational services to the respective communities.

SOUTH LYON AREA RECREATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 3 - BUDGET INFORMATION

The annual budget is prepared by the recreation director and adopted by the South Lyon Area Recreation Authority; subsequent amendments are approved by the Authority. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was not amended. Total expenditures were less than budgeted appropriations by \$106,980.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the Authority's governmental funds for the year ended June 30, 2008 was as follows:

| <u>Governmental Activities</u> | <u>Balance 7/1/2007</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 6/30/2008</u> |
|--|-----------------------------|-------------------|------------------|------------------------------|
| Capital assets being depreciated: | | | | |
| Office equipment and furniture | \$ 42,449 | \$ 1,496 | \$ 16,518 | \$ 27,427 |
| Athletic equipment | 4,785 | | | 4,785 |
| Subtotal | 47,234 | 1,496 | 16,518 | 32,212 |
| Accumulated depreciation | (36,754) | (5,592) | 16,518 | (25,828) |
| Net capital assets, governmental activities | <u>\$ 10,480</u> | <u>\$ (4,096)</u> | <u>\$</u> | <u>\$ 6,384</u> |

Depreciation expense is being recorded in the government-wide statement of activities based upon the activity utilizing the assets. The only activity in the Authority is the parks and recreation activity. The Authority uses the straight line method to depreciate capital assets over their estimated useful lives. No debt is attributed to these assets.

SOUTH LYON AREA RECREATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 5 - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of Federally insured banks, credit union, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal Agency obligation repurchase agreements; bankers acceptance of United States banks, commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

The Authority has designated one bank for the deposit of its funds. The Authority does have an investment policy, but does not address various risks associated with deposits.

The Authority had no investments during the year ended June 30, 2008.

The Authority's cash deposits are subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the Authority had \$97,253 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

| <u>Deposits</u> | <u>Carrying Amount</u> | <u>Bank Balance</u> |
|--------------------------------|----------------------------|-------------------------|
| Insured (FDIC) | \$ 100,000 | \$ 100,000 |
| Uninsured and uncollateralized | <u>57,575</u> | <u>97,253</u> |
| Total deposits | <u>\$ 157,575</u> | <u>\$ 197,253</u> |

SOUTH LYON AREA RECREATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 6 - DEFINED CONTRIBUTION PENSION PLAN

The Authority provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Authority contributes 10 percent of full-time employees' gross earnings. In accordance with these requirements, the Authority contributed \$8,944 during the year ended June 30, 2008. The Authority's contributions for each employee are fully vested after three (3) years.

NOTE 7 - GRANTS AND DONATIONS

During the current year, the Authority received the following cash contributions into the General Fund:

| | |
|-------------------------|-------------------------|
| City of South Lyon | \$ 25,368 |
| City of South Lyon Swim | 3,845 |
| Green Oak Township | 12,413 |
| Green Oak Township Swim | 1,830 |
| Lyon Township | 16,669 |
| Lyon Township Swim | 2,140 |
| Private donations | <u>36,452</u> |
| Total | <u><u>\$ 98,717</u></u> |

NOTE 8 - RENT/RELATED PARTIES

The Authority leases its office space from the City of South Lyon for \$690 per month until its expiration June 30, 2010. The Authority expects to renew this lease for similar terms after its expiration.

The Authority also rents recreation facilities from South Lyon Community Education. There is no official terms for this lease, but have verbally committed to pay 4% of all revenues received from programs held at their facilities. The Authority does not expect the terms of this lease to change within the next fiscal year.

REQUIRED
SUPPLEMENTARY
INFORMATION

SOUTH LYON AREA RECREATION AUTHORITY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2008

| | Budget Amount | | | Variance with Final Budget Favorable (Unfavorable) |
|---|---------------|-----------|-----------|--|
| | Original | Final | Actual | |
| REVENUES | | | | |
| Adult activities | \$ 83,300 | \$ 83,300 | \$ 75,918 | \$ (7,382) |
| Youth activities | 350,000 | 350,000 | 317,035 | (32,965) |
| Swim activities | 135,300 | 135,300 | 140,081 | 4,781 |
| Pumpkinfest income | 39,000 | 39,000 | 38,897 | (103) |
| Drivers education fees | | | 7,500 | 7,500 |
| Other charges for services | 22,500 | 22,500 | 14,405 | (8,095) |
| Grants, donations, and other contributions | 96,265 | 96,265 | 98,717 | 2,452 |
| Interest income | 3,000 | 3,000 | 3,385 | 385 |
| Total revenues | 729,365 | 729,365 | 695,938 | (33,427) |
| EXPENDITURES | | | | |
| Salaries | 248,557 | 248,557 | 207,175 | 41,382 |
| Payroll taxes | 19,500 | 19,500 | 20,383 | (883) |
| Employee benefits | 43,000 | 43,000 | 30,427 | 12,573 |
| Insurance | 11,000 | 11,000 | 10,013 | 987 |
| Pumpkinfest expenditures | 31,500 | 31,500 | 34,859 | (3,359) |
| Special activities expenses | 11,650 | 11,650 | 3,077 | 8,573 |
| Photo copying | 7,200 | 7,200 | 5,709 | 1,491 |
| Recreation supplies | 24,900 | 24,900 | 20,218 | 4,682 |
| Education and training | 600 | 600 | 211 | 389 |
| Contract services - instructors | 213,500 | 213,500 | 185,599 | 27,901 |
| Dues and subscriptions | 1,000 | 1,000 | 655 | 345 |
| Rent - facilities | 30,280 | 30,280 | 27,116 | 3,164 |
| Office equipment/furniture | 1,500 | 1,500 | | 1,500 |
| Office supplies | 5,000 | 5,000 | 4,897 | 103 |
| Bank charges | 9,750 | 9,750 | 8,342 | 1,408 |
| Postage | 10,100 | 10,100 | 8,479 | 1,621 |
| Professional services | 12,750 | 12,750 | 17,602 | (4,852) |
| Printing and publishing | 18,500 | 18,500 | 17,579 | 921 |
| Telephone | 7,700 | 7,700 | 5,632 | 2,068 |
| Community promotion | 500 | 500 | 813 | (313) |
| Computer expenditures | 5,250 | 5,250 | 8,330 | (3,080) |
| Utilities | 4,500 | 4,500 | 4,141 | 359 |
| Miscellaneous | 10,000 | 10,000 | | 10,000 |
| Total expenditures | 728,237 | 728,237 | 621,257 | 106,980 |
| Excess of revenues over (under) expenditures | 1,128 | 1,128 | 74,681 | 73,553 |
| OTHER FINANCING SOURCES | | | | |
| Proceeds of sale of capital assets | | | 150 | 150 |
| Net change in fund balance | 1,128 | 1,128 | 74,831 | 73,703 |
| FUND BALANCE, JULY 1, 2007 | 11,335 | 11,335 | 11,335 | |
| FUND BALANCE, JUNE 30, 2008 | \$ 12,463 | \$ 12,463 | \$ 86,166 | \$ 73,703 |

October 27, 2008

To the Members of the Board
South Lyon Area Recreation Authority
318 Lake Street
South Lyon, Michigan 48178

Dear Board Members:

During our audit of the South Lyon Area Recreation Authority we came across various matters that we would like to discuss with you as part of our audit presentation for the year ending June 30, 2008.

The matters which we would like to discuss with you are as follows:

There is a new auditing standard (SAS #112) which we are required to follow as your auditing firm. This new standard relates to more formal communications by us to you regarding significant deficiencies in your internal controls and accounting procedures.

There are certain issues (deficiencies) which were previously considered general comments but under the new standard are now considered significant deficiencies.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

We consider the following to be material weaknesses of the Authority.

- Historically, the Authority has relied on independent external auditors in the preparation of their financial statements and required disclosures. The Authority has determined that the cost/benefit of preparing the financial statements and disclosures are best served by continuing this practice.
- There is a lack of segregation of duties.
- Assets were subject to misappropriation during a term of the previous director. Lack of proper internal controls and oversight may have resulted in the misuse of assets.

The following are other items we noted during the audit which we do not consider to be material weaknesses, but nonetheless need to be discussed:

- We notice an instance in which the Authority paid sales tax on items. The Authority is exempt from paying this tax, and should take measures to avoid having this tax collected. In some circumstances, these amounts can be refunded by the vendor charging this tax.
- The Authority may wish to evaluate its policies regarding cash disbursements. The paid invoices are not being approved by a responsible individual. This is a State of Michigan requirement to ensure all invoices have been evaluated/approved. Also, paid invoices are being filed by general ledger account number. This can be very difficult to find invoices that have expenditures in multiple cost centers. We also found instances where there was a lack of support for expenditures. All expenditures require an original invoice to be maintained in the files. Even expenditures that are determined by contract (i.e., rent) must have documentation in the file to substantiate disbursements.
- The Authority should re-evaluate its policies regarding capital assets. This includes determining how assets can be disposed, threshold for capitalization, and maintaining a perpetual list of assets owned.
- The personnel policy adopted by the Authority is unclear. The Authority should consider the cost/benefit of revamping this policy to eliminate some ambiguity in its language.
- During the audit we noticed many sensitive documents (W-2s, personnel files, etc.) were not secured. Identity theft is on the rise, and the Authority should take proper steps to ensure the safety of employees/patrons' personal information. The Authority should adopt a "Red Flags" policy as dictated by the Federal Trade Commission as it pertains to identity theft.
- Revenues realized could not be reconciled to the general ledger. Detail in the deposits could not be confirmed to the adopted fee schedule.
- Cash is being collected offsite by a contractors/employees for the Authority with no system in place to determine if correct amounts are being deposited. The Authority should evaluate its internal control procedures to put a system of checks and balances in place.
- Cancelled checks are not being returned to the Authority. The Authority may wish to evaluate the cost/benefit of having these returned or asking for microfiche copies monthly.
- Deposits were not always being made timely. To avoid the misappropriation of funds, all funds should be deposited regularly.
- The Authority has an investment policy, but it has not been maintained. Due to the volatile environment in the bank industry, the Authority should evaluate the appropriateness of the adopted policy.
- While reviewing the payroll records for the Authority we notice that no incremental rates or scales by position/job is being utilized. Also, not all payroll files have required documentation for all of its employees. These items include items such as Form I-9, wage approvals, and employee reviews. The Authority should implement policies to ensure all appropriate steps are being followed.
- Timesheets are kept by each program supervisor. Each program supervisor is responsible for reporting their employee's time to the director for payroll. To ensure that proper documentation and authority is present the Authority may wish to have all documentation reviewed by the director prior to payment.
- Backup of computer data is not being performed for onsite data. The Authority should make regular backups, and periodically test that backup data can be restored.

Conclusion

Thank you for your assistance and hospitality toward our firm while conducting the audit of the South Lyon Area Recreation Authority.

If you should have any questions, comments or concerns please do not hesitate to call us.

This report is intended solely for the information and use of the members of the Board and management of the South Lyon Area Recreation Authority and is not intended to be and should not be used by anyone other than the specified parties.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants